Kansas Motor Carriers Association

Trucking Solutions Since 1936

LEGISLATIVE TESTIMONY
BY THE
KANSAS MOTOR CARRIERS ASSOCIATION

In Opposition of House Bill No. 2234

Presented to the House Transportation Committee
Representative Richard Proehl, Chairman
Wednesday, February 13, 2013

MR. CHAIRMAN AND MEMBERS OF THE HOUSE TRANSPORTATION COMMITTEE:

I am Tom Whitaker, executive director of the Kansas Motor Carriers Association. I appear before you this afternoon representing our 1,000 member companies and the Kansas trucking industry in strong opposition to House Bill No. 2234.

HB 2234 would allow the Kansas Department of Transportation (KDOT), specifically the Secretary of Transportation, to assume control of the daily operations of the Kansas Turnpike Authority (KTA). This bill subjects the turnpike to the bureaucracy of a state agency, as opposed to the business model used by KTA. KMCA believes if KTA is turned over to a government agency and subject to the whims of the Governor and Legislature, tolls would rise to the point where the trucking industry would no longer see value in using the turnpike and instead seek alternate routes to traverse Kansas or bypass the State altogether. Trucks are like water, if you place an obstacle in their way, they will find another route to travel.

The trucking industry is a valuable customer on the Kansas Turnpike. According to KTA's 2011 annual report, trucking (three or more axles) represents 39% of KTA's revenue and makes up only 11% of the total turnpike traffic. Over the last 50 plus years, KTA has kept tolls reasonable while providing a high quality of service to their customers.

The Reason Foundation, which testified earlier this session before the House Appropriations Committee, stated in a February 7, 2013 article, "Merging the Kansas Turnpike into the State DOT is a bad idea", the author went on to say, "Mergers of government entities are often proposed in an effort to reduce costs. In many cases, however, cost savings are illusory and can be greatly outweighed by costly unintended consequences." We have attached a copy of the Reason Foundation's article to our testimony.

This Administration has stated the merger of KTA and KDOT will create savings of $15 million a year. KMCA would like to know what specific observations and research led KDOT to believe there would be $15 million a year in savings. This issue has not been vetted, studied or priced. The consequences are completely unknown.

PO Box 1673 • Topeka, KS 66601-1673 • 2900 SW Topeka Blvd. • Topeka, KS 66611
(785) 267-1641 • Fax: (785) 266-6551 • www.kmca.org

House Transportation
Date: 2-13-13
Attachment # 4

In FY 2011, the KTA spent about $7 million on administration and $9 million on maintenance, which doesn't appear like much to squeeze savings from.

HB 2234 would dramatically change the structure of the KTA Board. The bill provides that the Secretary of Transportation will serve as the Chief Executive Officer (CEO) and Chairman of the KTA. Under present law, the CEO is hired by and reports to the five member KTA Board. The bill eliminates oversight of the CEO by the Board. Only the Governor could remove the CEO by removing the Secretary of KDOT. This change in Kansas law eliminates any power the Board would have over the CEO and basically any need for the Board.

Mr. Chairman, HB 2234 would become effective on publication in the Kansas Register. KMCA would like to know, what's the hurry? This merger needs the scrutiny of legislators, taxpayers and most importantly, the customers of the KTA.

As KMCA testified in 2009 on a similar proposal, we believe the old adage applies to Governor Brownback's proposal, "If it ain't broke, don't fix it." If the turnpike was private property, this proposed merger would be considered "a taking."

There are so many questions and so few answers. KMCA strongly opposes HB 2234. This merger needs extensive review by the Legislature and the customers of the KTA. We thank you for the opportunity to present our position on HB 2234 and would be pleased to respond to any questions you may have.

Reason Foundation

http://reason.org
http://reason.org/news/show/merging-the-kansas-turnpike-authori

Merging the Kansas Turnpike Authority Into the State DOT Is a Bad Idea

Gov. Brownback's proposal is far from fiscally conservative

Robert Poole
February 7, 2013

Mergers of government entities are often proposed in an effort to reduce costs. In many cases, however, cost savings are illusory and can be greatly outweighed by costly unintended consequences. That is very likely to be the case with Gov. Sam Brownback's recent proposal to have the Kansas Department of Transportation (KDOT) take over the Kansas Turnpike Authority.

By all accounts, the Kansas Turnpike Authority (KTA) is a well-run, efficient provider of the principal super-highway in the state. The 236-mile Kansas Turnpike is entirely self-supporting from toll revenues paid by cars and trucks that choose to use it. It generates about $90 million a year, from which it makes payments on $264 million worth of toll revenue bonds, makes capital improvements (such as repaving and bridge replacements), and pays all operating and maintenance costs.

Gov. Brownback's proposal suggests that merging the Turnpike into KDOT would generate $15 million per year in operating cost savings, presumably by taking advantages of economies of scale. When pressed by reporters, neither KDOT nor the governor's office could produce any justification for this number, which appears to have been pulled out of the air.

Last year I researched a toll road consolidation proposal in Florida. An ad-hoc Government Efficiency Taskforce had estimated that consolidating several toll agencies would yield $24 million in annual savings—and actually produced a list itemizing those savings. But when my co-author, tolling expert Daryl Fleming (PhD, PE) analyzed that list he found many of the alleged savings were from having the bigger agency carry out various services for the smaller agencies. But it turned out that most of those services were already being outsourced, either by competitively selected private contractors or by inter-agency contracting. Thus, we found the savings were likely to be just $3.5 million per year, not $24 million.

Thus, if there are such economies to be had in Kansas, there is nothing to prevent KTA offering such services to KDOT and vice-versa, depending on which agency is the lower-cost provider of a specific function (e.g., snow plowing) in a specific part of the state. No merger is needed to achieve this kind of cost savings.

Our Florida study also looked at consolidations carried out in Massachusetts and New Jersey. In the former, alleged cost savings of $31 million per year turned out to be actually just $12 million, a mere 2.8% of the operating budget. In New Jersey, projected annual cost savings of $9.8 million turned out to be $4.1 million, less than 1% of the operating budget.

The assumption that creating a larger, merged organization means lower overall costs is also open to question. Toll Roads News reports that when the North Carolina Turnpike was merged into the North Carolina Department of Transportation several years ago, decisions that had formerly taken about a week at the 30-person Turnpike agency took the huge NCDOT about six months to achieve.

In the Florida example, there was strong circumstantial evidence that the legislators who supported consolidation had an ulterior motive: gaining control of consolidated toll revenue to use for projects in other parts of the state.

Siphoning off toll revenue to use for non-toll projects undercuts the basic principle on which toll agencies are based: that their toll charges are pure user fees, to be used for the sole benefit of those who pay the tolls. If a portion of the toll revenues is diverted to other uses, that portion becomes a tax, not a user fee. Fiscal conservatives should oppose such diversions on principle.

Alas, although Gov. Brownback has a well-deserved reputation as a fiscal conservative, the unintended consequences of his proposal could be very damaging to the users-pay principle.

To begin with, his proposal would divert the assumed $15 million annual cost savings to the state general fund, already violating the users-pay principle. Brownback won't be the governor of Kansas forever. Once the principle of diverting money from toll-payers to other parts of the government has been established, there's no telling what future governors and legislators might do.

Just six years ago, then-Gov. Kathleen Sebelius proposed a toll increase to fund improvements to the facilities of state universities. In Ohio, otherwise fiscally conservative Gov. John Kasich has proposed that the Ohio Turnpike issue $1.5 billion in additional bonds, the proceeds of which would be used for non-toll transportation projects elsewhere in the state. And in 2007, the legislature in Pennsylvania forced that state's turnpike authority to divert $450 million per year to the state Department of Transportation, for use on transit and highway projects statewide. The Pennsylvania Turnpike had to issue new bonds and massively increase tolls in order to comply, pushing it to the brink of insolvency, according to the state auditor-general.

In all of these cases, increasing tolls to fund non-toll projects constitutes taxing toll-road users to pay for state projects that benefit non-users. If those projects are desirable, the honest way to pay for them is out of general taxes on all taxpayers rather than singling out toll road users as sitting ducks. Fiscal conservatives are the last ones who should be proposing such policies.

In addition, imposing new financial burdens on toll agencies threatens their financial viability. A well-run toll agency, like KTA, follows conservative accounting and management practices, such as maintaining a good-sized cash reserve and making sure that new projects are cost-effective (i.e., that they add enough value that toll-payers will pay the costs involved). These practices enable KTA to achieve an investment-grade rating on its bonds, which keeps interest rates low and affordable.

Merging KTA into KDOT would be seen by investors as politicizing the Kansas Turnpike, since KDOT is ultimately answerable to elected officials in the legislature and the governor's office. Its toll revenues would no longer be dedicated solely to the Turnpike, but would be a target for future politicians to use for various other purposes. That could easily cost the Turnpike its investment-grade rating, increasing its borrowing costs.

In short, the proposed takeover of the Kansas Turnpike is a bad idea. Its costs very likely would far outweigh any minor cost savings that might be achieved in the short term. Kansas would be wise to leave well enough alone, preserving this jewel of an efficient provider of users-pay mobility.

Robert Poole is director of transportation policy at Reason Foundation.

Robert Poole is Searle Freedom Trust Transportation Fellow and Director of Transportation Policy